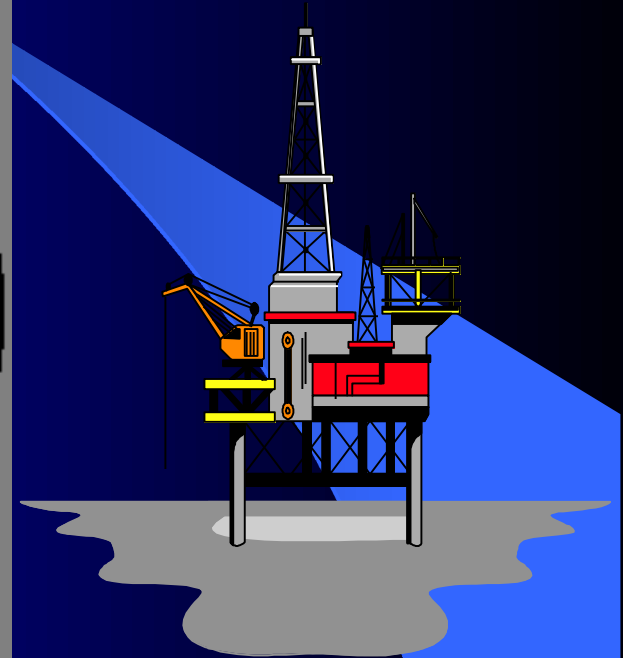
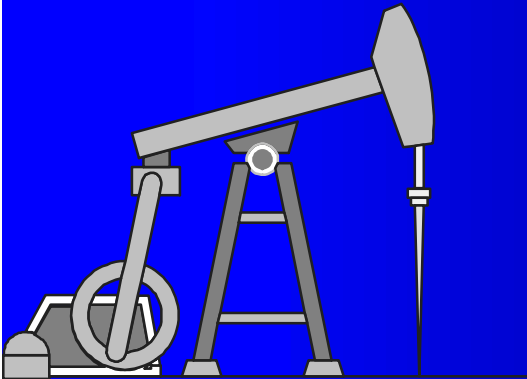


# MINERALS MANAGEMENT SERVICE



*RIK Pilot Projects*

# Minerals Management Service Wyoming Crude Oil RIK Pilot Project

## Agenda

- Welcome/Introductions
- Purpose of the public meeting
- Background
- Overview of pilot project
- Description of Wyoming pilot
- Public statements
- Lunch
- Discussion of issues

# Minerals Management Service Wyoming Crude Oil RIK Pilot Project

- Purpose of the public meeting
  - Inform public on RIK plans
  - Receive comment on specific RIK issues
  - Ensure public involvement in RIK projects

# Minerals Management Service

## Wyoming Crude Oil RIK Pilot Project

- The Secretary of the Interior has the option to take Royalties in Kind
- Valid Option when it provides net benefits to the States and the Taxpayers
- MMS's job is to answer:
  - 1) can RIK provide these net benefits
  - 2) under what conditions will the potential exist
  - 3) what is the best way to realize these benefits

# Minerals Management Service

## Wyoming Crude Oil RIK Pilot Project

- To answer these questions, MMS has been studying and developing the RIK option
- Over the few years we've learned a lot about RIK
  - there is a potential to lose money -
    - the 1995 Gas Pilot showed us that
  - there is the potential to earn money -
    - the 1997 Feasibility Study showed us that
  - we've seen the pitfalls and the opportunities and better understand the factors that dictate RIK success

# Minerals Management Service Wyoming Crude Oil RIK Pilot Project

- But there is much more to know.
- 1997 Feasibility Study recommended three larger, more comprehensive pilots be implemented
  - Onshore Oil pilot in Wyoming
  - small offshore gas pilot in 8(g) waters off Texas
  - Offshore Gulf of Mexico gas pilot
- Pilots chosen in areas when there was some potential for success, State interest

# Minerals Management Service Wyoming Crude Oil RIK Pilot Project

- Time frame
  - Wyoming and Texas 8(g) pilots start Oct 1, 1998
    - lasting 2 - 3 years
  - OCS Natural Gas starts Oct 1, 1999
    - lasting up to 5 years
- All in preliminary design phase
  - all on schedule

# Minerals Management Service Wyoming Crude Oil RIK Pilot Project

- Pilots are designed not only to see if RIK works but also to:
  - Identify and assess the influence of key economic and commercial factors that determine the success of the RIK option including:
    - production volumes, location/number of leases
    - quality of production, method of transportation
    - method of sale



# **Minerals Management Service Wyoming Crude Oil RIK Pilot Project**

- **Pilots will assess the optimal sales strategy**
  - Competitive lease sales
    - Logically assembled Bid packages
    - Retain right to reject bids
  - Marketing Agent
    - Will act to maximize return to Federal resources
    - Number of marketers used to be decided
- **Assessed relative to concurrent receipts from in-value leases in the area**

# Minerals Management Service

## Wyoming Crude Oil RIK Pilot Project

- The Wyoming Crude Oil RIK Pilot - the Details
  - Production volumes
    - 2,000 bbls/day in Big Horn Basin (Wyoming asphaltic sour)
    - 2,000 bbls/day in Powder River Basin (50 percent sweet/50 percent general sour)
    - Lease/agreement royalty production ranges from less than 5 bbls/day to 550 bbls/day.

# Minerals Management Service Wyoming Crude Oil RIK Pilot Project

## – Lease/Agreement Selection

- **High production - greater than 80 bbls/day**
- **Medium production - between 20 and 80 bbls/day**
- **Low production - less than 20 bbls/day**
- **Trucked and piped leases**
- **Stand-alone and unit production**
- **Bid packages isolate factors**

# Minerals Management Service Wyoming Crude Oil RIK Pilot Project

## Schedule - Phase 1

- Final Lease Selection - **May 15**
- Solicit Bids - July 1
- Receive Bids - **August 1**
- Select bids - **August 15**
- Notify successful bidders & lessees - **August 15**
- Implement pilot - **October 1**

# Minerals Management Service Wyoming Crude Oil RIK Pilot Project

## Reporting/Verification

- **Production**

- No change for operators: 3160's

- **Fiscal reporting/payment**

- Purchasers report delivered royalty volumes
- Reporting on MMS-provided excel spreadsheets with minimum data
- Payment accompanies each reported monthly form

# Minerals Management Service Wyoming Crude Oil RIK Pilot Project

## Reporting/Verification (cont.)

### ● Verification

- Production/sales comparisons to be made
- Discrepancies initially pursued with operators

### ● Operator Responsibilities

- Deliver correct royalty volumes at royalty point
- Communicate with MMS and royalty purchaser
- Participate in agreement with MMS regarding delivery, imbalances, and other issues

# Minerals Management Service Wyoming Crude Oil RIK Pilot Project

## ● Purchaser responsibilities

- Take all delivered royalty volumes
- Report/pay monthly pursuant to contract terms
- Communicate with MMS and operator

# Minerals Management Service Wyoming Crude Oil RIK Pilot Project

- Issues for discussion
  - Through the pilot we plan to isolate and assess the effects of the lease variables such as gravity, sulfur, transportation method, royalty rate level, and lease productivity. Are there additional variables we should study?
  - Are there any circumstances that would mitigate against a starting date of October 1, 1998?
  - How much advance notice would lessees require before MMS takes royalties in-kind?



# Minerals Management Service

## Wyoming Crude Oil RIK Pilot Project

- Issues for discussion
  - Should we set a minimum volume threshold for leases below which the RIK approach is not advisable?
  - Should we set a royalty rate threshold below which the RIK approach is not advisable?
  - Are there special considerations when including large communitization and unit agreements in an RIK program?
  - Are there any special considerations for leases with trucked crude?

# Minerals Management Service

## Wyoming Crude Oil RIK Pilot Project

- Issues for discussion
  - To compare RIK pilot performance, should we continue to audit the producers' shares or use receipts from leases that pay royalties on value that are located in the same geographic areas as pilot RIK leases?
  - How should MMS address imbalances with operators? Is it a potential problem?
  - What are the relevant valuation benchmarks (i.e., spot prices, indices, other?) that could provide MMS with a reasonable measure of Wyoming oil RIK pilot revenue performance?

# Minerals Management Service Wyoming Crude Oil RIK Pilot Project

- Issues for discussion
  - What should be the duration of a sales contract for marketing Federal RIK oil?
  - What would be the minimum advisable volume for an RIK oil sales contract?